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ACTION TO RESPOND TO THE UNFAIR TRADE PRACTICES OF JAPAN AND TO REDUCE THE TRADE DEFICIT

APRIL 1, 1985.—Referred to the House Calendar and ordered to be printed

Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. Con. Res. 107]

The Committee on Ways and Means, to whom was referred the concurrent resolution (H. Con. Res. 107) to express the sense of the Congress that the President take action to reduce the growing United States merchandise trade deficit and that he take action to respond to unfair international trade practices of Japan, having considered the same, report favorably thereon without amendment and recommend that the concurrent resolution do pass.

COMMITTEE REPORT ON HOUSE CONCURRENT RESOLUTION 107

To express the sense of the Congress that the President take action to reduce the growing United States merchandise trade deficit and that he take action to respond to unfair international trade practices of Japan.

The U.S. merchandise trade deficit has tripled in three short years, growing to $123 billion in 1984 from $36 billion in 1982. The deficit threatens to rise to an even larger $140 to $150 billion in 1985. A trade deficit of this size is alarming, both because of the erosion it implies for our exporting and import-competing sectors, but also because of what it says about our ability to manage the U.S. economy in a sound and responsible way.

Clearly, not all factors underlying the U.S. trade deficit can or should be altered by policymakers in the United States—e.g. the debt problems of a number of developing countries and the robust growth of the U.S. economy. However, there are other factors contributing to the enormous merchandise trade deficit which would appropriately be addressed by U.S. policymakers. Among these other factors is the high value of the dollar against other currencies.

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Most economists, including those in the Administration, believe the strong dollar accounts for at least half of the U.S. trade deficit, acting as it does as a subsidy on imports and a tax on exports. If the budget deficit could be reduced, thereby reducing the need to import such massive amounts of capital to finance the simultaneously strong credit demands of business and the Federal government, the dollar could be eased gradually from its current high levels. Such action would help restore the competitiveness of U.S. exports and would provide needed stimulus to the trading sector of our economy, which has been largely by-passed by the recent economic recovery.

Equally clearly, Japan is not the primary source of the U.S. trade deficit. The U.S. trade balance with the European Community since 1980 has deteriorated by a relatively much greater amount than with Japan, and our trade balances with Canada and the developing countries as a whole have suffered badly in recent years.

However, if the United States is to maintain relatively open markets in the face of intense pressure from many industries to erect protectionist barriers, there must be a sense that competitive U.S. products have access to foreign markets on a fair and equitable basis. This sense exists, with some exceptions, with respect to U.S. market access in Europe, Canada, and many developing countries. Where such access is denied or restricted, it usually is due to selected and readily identifiable barriers affecting imports in a particular sector.

However, this sense does not generally exist with respect to Japan; and the belief is not unique to American exporters. Rather, many producers in the United States and other countries have the sense that even the most competitive goods from whatever source—textiles or steel from neighboring countries in Southeast Asia or telecommunications products from the United States—often are not able to enter the Japanese market freely, particularly if such imports would threaten to take a large share of the Japanese market from Japanese producers.

Although there is no one measure available to determine whether an economy is "open", the following figures would suggest that as the Free World's second largest economy, Japan could do more to open its economy to manufactured imports. This is true despite Japan's heavy reliance on imported raw materials, which means that raw materials will account for a relatively larger share of Japan's total imports.

According to Administration estimates, the United States imports about 58 percent of all manufactured goods exported by developing countries. Europe imports about 23 percent; and Japan imports about 8 percent. By any measure, it would seem difficult to attribute such an unequal distribution of developing country manufactured exports solely to Japan's dependence on raw material imports.

As most economies expand and remove import barriers, the importance of manufactured imports has grown, in most cases substantially. In the European Community [EC], for example, imports of manufactured goods now account for about one quarter of all manufactures consumed within the EC; that share has grown from 16 percent in 1970. In the United States, imports also account for about one quarter of all manufactured goods consumed in this country; that share is more than double the share of 11 percent in 1970. In the case of Japan, imports account for about 13 percent of all manufactured goods consumed in Japan; that share is up comparatively little from the share of 10 percent in 1970.

While Japan is much more dependent on imports of raw materials than either the EC or the United States, one nonetheless would expect a truly open economy to show greater integration of manufactured imports into the economy over the period of a one and a half decades, a period during which Japan dismantled a host of barriers to imports of manufactured goods.

Finally, while it is not widely recognized, the yen has been rising along with the dollar since mid-1980 and has reached record highs against currencies in Europe and elsewhere. Japanese officials have rightly placed much of the blame for the large U.S. trade deficit on the effects of the strong dollar. However, an examination of Japan's trade balances against the major countries or regions which have experienced significant currency depreciation against the yen shows that Japan continues to run trade surpluses with virtually every major trading region except OPEC and other important suppliers of raw materials. For example, between 1980 and 1983 (latest year for which final figures are available), Japan's exports to neighboring countries in Southeast Asia rose from $31 billion to $35 billion, while Japan's imports from those countries fell from $32 billion to $28 billion. Japan's imports from Korea during that period were nearly stagnant, although the yen appreciated nearly 50 percent against the Korean won and Japan's economy grew about three percent per year in real terms. Similar patterns were repeated with respect to a number of European countries whose currencies depreciated against the yen. While partial figures for 1984 begin to show some improvement in this picture—that is, Japanese imports began to rebound, albeit not as rapidly as exports—questions remain as to why, if Japan's market were truly open, the strong yen has not led to a stronger growth of imports and weaker performance of exports.

The purpose of this resolution is to express sense of the Congress that now is the time for President and Administration to take firm action with regard to Japan to indicate to Japan the seriousness with which Congress views the difficulties of firms in the United States—and around the world—in their efforts to penetrate Japan's market. U.S. negotiators have spent many of the past fifteen years in negotiations with Japan, and despite a series of "market-opening" measures announced by Japan, we have seen little result in terms of increased market access for U.S. and other exporters.

In the current "Four Sector" negotiations—in telecommunications, electronics, forest products, and medical equipment and pharmaceuticals—we have seen an apparent reluctance on the part of Japanese negotiators to address potentially serious problems before they occur in telecommunications, and an apparent unwillingness to negotiate on high tariffs and other important barriers in forest products. Yet these are the very sectors which President Reagan and Prime Minister Nakasone agreed in their January meeting should be addressed on an urgent basis; they also are among the sectors in which the leaders agreed the United States is internationally competitive.

On a broader front, the purpose of this Resolution is to express the sense of the Congress that the Administration and Congress must come to grips with some of the underlying causes of the overall merchandise trade deficit. Among these is the enormous budget deficit, which, when combined with the strong growth in demand for credit by private businesses and individuals, has substantially exceeded the pool of savings available in this country. This has necessitated the inflow of large amounts of capital from abroad to finance these credit demands, which in turn has pushed the value of the dollar up sharply on foreign exchange markets. Among the options available—reducing the borrowing requirements of either business or government—the choice is clear. Congress and the Administration must take immediate steps to begin reducing the massive budget deficits confronting this country and thereby increase the likelihood that the dollar will depreciate smoothly and improve U.S. international competitiveness.

SECTION-BY-SECTION ANALYSIS

Congressional findings

House Concurrent Resolution 107 outlines a number of factors which form the basis for the actions which the President is urged to take under this resolution to reduce the growing U.S. merchandise trade deficit and respond to unfair trade practices of Japan.

The role of the strong dollar and the fiscal deficit in creating the unprecedented trade deficit of $123 billion in 1984 is acknowledged, and it is recognized that concerted Congressional and Presidential action is needed to address these problems to help restore U.S. competitiveness and reduce protectionist pressures.

However, the resolution also recognizes that the absence of fair and equitable access for U.S. and other manufacturers to the Japanese market, in spite of significant growth in the Japanese economy, and the fact that Japan has extensive access to the U.S. market, has been a substantial cause of the bilateral U.S. merchandise trade deficit with Japan of $37 billion in 1984. This disparity in market access, which also exists between Japan and most of its trading partners, has the potential of undermining the entire range of bilateral relations between the United States and Japan. Progress in the current negotiations on U.S. access to the Japanese markets in the telecommunication, forest products, pharmaceuticals and medical equipment sectors is essential to place our bilateral trade relationship on an equitable and mutually advantageous basis. Therefore, the resolution directs that the action described below be taken to enforce U.S. rights under trade agreements to which Japan is a party and to respond to Japanese acts and policies.

Section 1

Paragraph (1) directs the President to develop a concrete plan for reducing the overall trade deficit by attacking its causes, including the high value of the dollar on exchange markets. The 1984 trade deficit of $123 billion reflects an alarming trend. This figure is nearly double the $69 billion 1983 trade deficit, which has increased from $40 billion in 1981. The traditional U.S. surplus in services trade, overseas investment income, and transfer payments also has declined; the U.S. current account swung from a surplus of over $4 billion in 1981 to a deficit of $41 billion in 1983 and about $100 billion in 1984.

Much of the trade deficit can be attributed to the strength of the dollar, which is now 25 to 30 percent higher than its average level during the entire eleven-year period of floating exchange rates. This results in an effective 25 to 30 percent surcharge on all U.S. exports and a 25 to 30 percent subsidy on all imports, making it extremely difficult for U.S. companies to compete in the international marketplace. Immediate steps must be taken to attack the causes of this trade deficit, including the strong dollar, in order to assure that U.S. products can compete on a fairer basis in U.S. and foreign markets.

Although paragraph (1) recognizes that not all of the current U.S. trade difficulties are the result of unfair trade practices by our trading partners, paragraph (2) of section 1 addresses the fundamental unfairness of the limited market access which Japan provides to competitive U.S. products, contributing substantially to the United States' $37 billion trade deficit with Japan.

The President is directed to take all appropriate and feasible action to secure the elimination of unreasonable and discriminatory Japanese acts, policies and practices which are inconsistent with or deny the United States the benefits of trade agreements to which Japan is a party. Although the U.S. market is wide open to Japanese imports, manufacturers of competitive U.S. products in a number of areas, such as telecommunications, pharmaceuticals, electronics, forest products and medical equipment face tremendous obstacles in entering the Japanese market. This disparity in treatment must be eliminated.

Section 2

Section 2 requires the President to make a determination, within 45 days after this concurrent resolution is agreed to by the Congress, as to whether Japan has taken sufficient action to assure the elimination of those Japanese acts, policies and practices described in paragraph (2) of section 1 of the resolution. Within 60 days after this concurrent resolution is agreed to, the President must report his determination, along with appropriate reasons, to the Committee on Ways and Means of the House of Representatives and the Senate Committee on Finance. A summary of this report also must be published in the Federal Register.

If the President's determination is negative, the President is directed to take action to seek the elimination of those Japanese acts, policies and practices through the use of existing customs laws and other U.S. trade laws governing the importation of merchandise to restrict Japanese imports into the U.S. market. The action taken under this section should be sufficient to insure that access to the Japanese market is fair and equitable, as measured by increased sales of competitive products from the U.S. and elsewhere, and verified by affirmation from the U.S. business community. The report to the Congress required by this section also shall include a description of the President's actions taken hereunder.

Section 3

The final section provides that any action taken by the President under section (2)(b) may not be modified or revoked unless the President determines that the objective of eliminating those discriminatory Japanese acts, policies and practices described in paragraph 2 of section 1 has been achieved. The President is directed to report such a determination to the Congress and publish it in the Federal Register.

VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 2(1)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the bill H. Con. Res. 107 was ordered favorably reported by the Committee by nonrecorded vote.

OVERSIGHT FINDINGS

With respect to clause (2)(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in this bill.

BUDGET AUTHORITY AND COSTS ESTIMATES

In compliance with clause 7(a) of rule XIII and clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that H. Con. Res. 107 does not provide any new budget authority or any new increase in tax expenditures.

INFLATIONARY IMPACT STATEMENT

With respect to clause 2(1)(4) of rule XI of the Rules of the House of Representatives, the Committee states that H. Con. Res. 107, which would have no direct effect on revenues, would not have an inflationary impact on prices and costs in the operation of the general economy.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance of clause 3 of rule XIII of the House of Representatives, the Committee states that no changes in existing law will be made by House Concurrent Resolution 107.

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